

Audit



Report

GOVERNMENT PERFORMANCE AND RESULTS ACT -  
UNFUNDED DEPOT MAINTENANCE REQUIREMENTS

Report No. D-2001-033

January 12, 2001

Office of the Inspector General  
Department of Defense

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### **Acronyms**

GPRA  
OMB

Government Performance and Results Act of 1993  
Office of Management and Budget



**INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-2884**

January 12, 2001

**MEMORANDUM FOR UNDER SECRETARY OF DEFENSE  
(COMPTROLLER/CHIEF FINANCIAL OFFICER)**

**SUBJECT: Audit Report on Government Performance and Results Act - Unfunded  
Depot Maintenance Requirements (Report No. D-2001-033)**

We are providing this audit report for review and comment. We considered comments from the Office of Program Analysis and Evaluation in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. Therefore, we request that the Under Secretary of Defense (Comptroller/Chief Financial Officer) provide additional comments on Recommendation B.1. in response to the final report. We request that management provide comments by March 13, 2001.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. James L. Kornides at (614) 751-1400, extension 11 (jkornides@dodig.osd.mil), or Mr. Stuart D. Dunnett at (614) 751-1400, extension 14 (sdunnett@dodig.osd.mil). The audit team members are listed inside the back cover. See Appendix C for the report distribution.

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## Office of the Inspector General, DoD

Report No. D-2001-033

(Project No. D2000FJ-0103)

January 12, 2001

### Government Performance and Results Act - Unfunded Depot Maintenance Requirements

#### Executive Summary

**Introduction.** The Government Performance and Results Act of 1993 (GPRA) was designed to improve Government-wide program effectiveness, Government accountability, and ultimately, public confidence by requiring agencies to identify measurable annual performance goals, against which actual achievements can be compared. The GPRA requires Federal agencies to prepare strategic plans, annual performance plans, and program performance reports covering the program activities set out in their budgets. This report is one in a series on DoD GPRA reporting.

In March 2000, DoD fulfilled its GPRA reporting requirement by publishing its combined Annual Performance Plan for FY 2001 and Annual Program Performance Report for FY 1999 in Appendix I of the DoD Annual Report to the President and Congress. In the Annual Report, DoD established two corporate-level goals and eight performance goals designed to measure achievement of the two corporate goals. An additional 49 performance measures and indicators help evaluate the status of performance goals by assessing the quantifiable outputs of the performance goals. Performance Indicator 2.3.2, "Unfunded Depot Maintenance Requirements," is designed to monitor the trend of unfunded depot maintenance to ensure that maintenance backlogs do not grow substantially over time. See Appendix B for the complete text of Performance Indicator 2.3.2. In the GPRA report, DoD indicated it had met the FY 1999 performance goal for unfunded depot maintenance and that a maintenance backlog for the Military Departments of \$1.2 billion remained as of September 30, 1999.

**Objectives.** The objective was to determine whether DoD consistently and accurately compiled the information used to compute the DoD unfunded depot maintenance requirements. An additional objective was to determine whether DoD was achieving the goal of reducing unfunded depot maintenance requirements. A summary report on DoD GPRA implementation will discuss the management control program.

**Results.** DoD did not consistently and accurately compile the unfunded depot maintenance performance results and goals for Performance Indicator 2.3.2, "Unfunded Depot Maintenance Requirements." Specifically, DoD did not base FY 1999 performance results and the FY 2001 performance goals presented for the Military Departments on the best data available. Further, DoD had no supporting documentation for the reported Navy FY 1999 performance results and the FYs 2000 and 2001 performance goals. Lastly, DoD did not report the FYs 1999, 2000, and 2001 performance goals using a consistent methodology. As a result, the performance

report did not contain reliable data and could not be used to determine conclusively whether maintenance backlogs are growing substantially over time (finding A).

DoD needs to improve the presentation of Indicator 2.3.2, “Unfunded Depot Maintenance Requirements,” to provide more meaningful information. DoD needs to establish a quantifiable benchmark against which to measure the trend in unfunded depot maintenance, accurately discuss the Navy performance results and the reasons that the Army and the Navy did not meet the FY 1999 goal, and discuss the performance trend over the time period presented. As a result of problems with the presentation of Performance Indicator 2.3.2, the GPRA report was not as meaningful as it should have been (finding B).

**Summary of Recommendations.** We recommend the Under Secretary of Defense (Comptroller), provide unfunded depot maintenance results and goals consistent with the appropriate year’s President’s budget, reconcile the reported results and goals to the President’s budget data, and revise the FY 2001 goals using FY 2001 President’s budget data. We also recommend the Under Secretary of Defense (Comptroller/Chief Financial Officer) establish and disclose a quantifiable unfunded depot maintenance benchmark for each Military Department, and improve the explanations of performance results and reasons for not achieving unfunded depot maintenance performance goals.

**Management Comments.** The Director of Program Analysis and Evaluation, Under Secretary of Defense (Comptroller), agreed to compile future performance reports with data consistent with the President’s budget and to revise the FY 2001 performance goals using FY 2001 President’s budget data. The Director also agreed to present funded depot maintenance requirements as a lagging indicator. However, the Director did not agree that a benchmark based on the percentage of total requirements should be disclosed.

**Audit Response.** The Director’s comments were partially responsive. The Director agreed to revise the performance goal to be consistent with President’s budget data. We do not agree that displaying actual funded depot maintenance amounts would establish a suitable benchmark. We request that the Director of Program Analysis and Evaluation, Under Secretary of Defense (Comptroller), provide additional comments on that recommendation by March 13, 2001.

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## Background

The Government Performance and Results Act of 1993 (GPRA) requires Federal agencies to prepare strategic plans, annual performance plans, and program performance reports covering the program activities set out in their budgets. The Office of Management and Budget (OMB) Circular No. A-11, part 2, "Preparation and Submission of Strategic Plans, Annual Performance Plans, and Annual Program Performance Reports," July 7, 1999, as revised November 10, 1999, provides implementing guidance on preparing the GPRA requirements.

**Government Performance and Results Act of 1993.** GPRA was designed to improve Government-wide program effectiveness, Government accountability, and ultimately, public confidence by requiring agencies to identify measurable annual performance goals, against which actual achievements can be compared. GPRA was also intended to improve congressional decisionmaking by providing more objective information on achieving statutory objectives.

Beginning in FY 1999, GPRA required Federal agencies to prepare an annual performance plan. Comparison of the FY 1999 performance plan against the actual FY 1999 performance was required in the first program performance report, due by March 31, 2000. The GPRA provides criteria for the information required in the reports.

**OMB Circular No. A-11.** OMB Circular No. A-11 provides guidance on the preparation and submission of the strategic plan, the annual performance plan, and the program performance report. In addition to providing implementation for GPRA requirements, some of the OMB Circular No. A-11 guidance relates to timelines for submission of GPRA data; the general format for the presentation of the data; and the possible combination of the strategic plan, the annual performance plan, the performance report, and the budget. The OMB guidance does not require that the annual plan and the performance report be combined.

**The DoD Performance Plan and Report.** In March 2000, DoD fulfilled its GPRA requirement by publishing its combined FY 1999 Annual Program Performance Report and the FY 2001 Annual Performance Plan (the GPRA Report) in Appendix I of the Annual Report to the President and Congress. Within that report, DoD purports to have one principal output: Military forces that are ready to go to war. To measure that output, DoD established two corporate-level goals.

- **Goal 1.** Shape the international security environment and respond to the full spectrum of crises by providing appropriately sized, positioned, and mobile forces.
- **Goal 2.** Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs and reengineer the Department to achieve a 21st century infrastructure.

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DoD established eight performance goals designed to measure achievement of the corporate-level goals. An additional 49 performance measures and indicators help evaluate the status of performance goals by assessing the quantifiable outputs of the performance goals.

**DoD Depot Maintenance.** Depot maintenance programs fund the overhaul, repair, and maintenance of aircraft, missiles, ships, submarines, combat vehicles, and other equipment. Depot maintenance efforts are performed at both public (DoD) and private (contractor) facilities. The effort provides the maintenance necessary to sustain the operational readiness of combat forces, to ensure the safe and efficient operation of weapon systems, and to renovate assets that are being transferred from Active Forces to Reserve Components.

Military Departments develop maintenance requirements from projected usage rates of equipment. Actual funded requirements data are based on obligation amounts in Military Department finance systems.

**Performance Indicator 2.3.2, Unfunded Depot Maintenance Requirements.** Performance Indicator 2.3.2, “Unfunded Depot Maintenance Requirements,” is intended to monitor the trend of unfunded depot maintenance to ensure that maintenance backlogs do not grow substantially over time. DoD states that an upward trend indicates a higher likelihood, but not a certainty, that needed maintenance will not be accomplished. Performance Indicator 2.3.2 supports Performance Goal 2.3, “Streamline Infrastructure Through Business Reform.” Performance Goal 2.3 is intended to streamline the DoD infrastructure by redesigning the Department's support structure and pursuing business practice reforms. See Appendix B for the complete text of Performance Indicator 2.3.2.

**Unfunded Depot Maintenance Versus Deferred Maintenance.** For financial reporting purposes, the FY 1999 DoD Consolidated Financial Statements included information on deferred maintenance. Unfunded depot maintenance, as defined by DoD, and deferred maintenance, as defined by the Federal Accounting Standards Advisory Board, are intended to include similar, but not identical, maintenance data. However, accounting policy for reporting deferred maintenance on DoD assets had not been finalized.

**Unfunded Depot Maintenance.** DoD defines unfunded depot maintenance as the difference, in dollars, between Military Department estimates of depot maintenance expenditures needed to keep all equipment fully operational and the amount of maintenance actually funded in the budget.

**Deferred Maintenance.** Statement of Federal Financial Accounting Standards No. 6, “Accounting for Property, Plant, and Equipment,” June 1999, as amended by Statement of Federal Financial Accounting Standards No. 14, “Amendments to Deferred Maintenance Reporting,” April 1999, defines deferred maintenance as maintenance that was not performed when it should have been or was scheduled to be and which, therefore, is put off or delayed for a future period.

For FY 1999, DoD reported deferred maintenance on both real property and National Defense property, plant, and equipment (weapon systems) in the



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Required Supplementary Stewardship Information section of the FY 1999 DoD Consolidated Financial Statements.

**Status of DoD Deferred Maintenance Reporting Policy.** DoD is currently developing specific deferred maintenance reporting requirements. In the FY 1999 DoD Consolidated Financial Statements, DoD stated that to develop the deferred maintenance requirements, it needed clarification to standardize deferred-maintenance-related definitions and estimation methodologies. The lack of a consistent reporting methodology for deferred maintenance resulted in differences between the deferred maintenance reported in the FY 1999 DoD Consolidated Financial Statements and Performance Indicator 2.3.2. Until DoD implements a consistent deferred maintenance policy, the appropriate link between deferred maintenance and unfunded depot maintenance cannot be established, detracting from the usefulness of both the DoD financial statements and GPRA reports regarding depot maintenance.

## **Objectives**

Our objective was to determine whether DoD consistently and accurately compiled the information used to compute the DoD unfunded depot maintenance requirements. We also had the objective to determine whether DoD was achieving the goal of reducing unfunded depot maintenance requirements. See Appendix A for a discussion of the scope and methodology related to the audit objectives. A summary report on DoD GPRA implementation will discuss the management control program.

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## **A. Accuracy and Consistency of Unfunded Depot Maintenance Performance Results**

DoD did not accurately and consistently compile the unfunded depot maintenance performance results and performance goals for Performance Indicator 2.3.2, “Unfunded Depot Maintenance Requirements.” Specifically, DoD did not do the following:

- Base either the unfunded requirements presented for the Army, the Navy, and the Air Force for the FY 1999 actual performance results or the FY 2001 performance goals on the best data available;
- Provide supporting documentation for the reported Navy FY 1999 performance results and the Navy FYs 2000 and 2001 performance goals; and
- Report the FYs 1999, 2000, and 2001 performance goals using a consistent methodology.

The GRPA reporting for this performance indicator was flawed because DoD did not have effective controls in place to insure that the data were accurately and clearly presented. As a result, the performance indicator did not contain reliable data. The lack of reliable data could impair the ability to determine whether maintenance backlogs are growing substantially over time.

## **Performance Indicator Data**

Military Department depot maintenance requirements and funding information for Performance Indicator 2.3.2 are obtained from a Military Department budget exhibit titled OP-30, “Depot Maintenance Program Summary.” All three of the Military Departments develop an OP-30 that indicates both funded and unfunded requirements for each component for future budget years. The components include the Active and Reserve forces as well as the National Guard. The initial Military Department depot maintenance funding estimates are submitted to the Office of the Secretary of Defense and OMB around the end of the fiscal year. These estimates are updated through program budget decisions and department adjustments and the revised budget estimates accompany the President’s budget submission in the January/February time-period. The FY 2001 President’s budget submission portrays the actual obligations incurred for FY 1999 as well as budget estimates for FYs 2000 and 2001.

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## Using Best Available Data

DoD did not use the best information available to present the unfunded depot maintenance requirements data in the GPRA report. The amounts reported were based on initial Military Department estimates instead of amounts consistent with revised requirements data in the President's budget. The revised requirements data were available before the issuance of the GPRA report but DoD did not have procedures in place to obtain them in time to be included. The amounts presented in the GPRA report and the amounts supported by the FY 2001 President's budget are shown in Table 1. Table 1 shows that the FY 2000 performance goal, except for an error in the Navy data, was consistent with the FY 2000 President's budget. However, the FY's 1999 and 2001 GPRA information was not based on the President's budget.

**Table 1. Amounts Reported in the GPRA Report and Amounts Supported by the President's Budget**  
(dollars in millions)

Military Department	FY 1999 Actual		FY 2000 Goal		FY2001 Goal	
	GPRA	2001 PB *	GPRA	2000 PB *	GPRA	2001 PB *
Army	\$454	\$452	\$191	\$191	\$254	\$ 231
Navy	630	663	779**	589	917	1,092
Air Force	104	65	339	339	223	136

\* President's Budget.

\*\* Navy error.

Table 1 shows that in some cases, especially for the Army data, the differences between the President's budget and the GPRA report, prepared in March 2000, were slight. However, the Air Force FY 1999 actual performance result and the Navy and the Air Force FY 2001 performance goals were significantly different than the amounts reported. The Air Force unfunded depot maintenance requirements' FY 1999 actual performance result reported in the FY 2001 President's budget was \$65 million, or 37.5 percent less than the \$104 million reported in the GPRA report. The Navy FY 2001 President's budget estimate of \$1,092 million was 19.1 percent greater than the \$917 million reported in the GPRA report. The Air Force FY 2001 President's budget estimate was \$136 million, or 39 percent less than the \$223 million reported as the GPRA goal.

**President's Budget Data.** Within Performance Indicator 2.3.2, DoD disclosed that some of the data were based on preliminary budget estimates. The budget estimates were based on older requirements data available during September and October of 1999. Office of Program Analysis and Evaluation personnel stated that the initial Military Department estimates were used because updated requirements data from the Military Departments could not be obtained in time

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to be included in the GPRA report. As required by OMB Circular No. A-11, DoD should have reported its performance goals consistent with the President's budget and not with those based on earlier estimates. In addition, based on information obtained and discussions with Military Department personnel, the President's budget data on depot maintenance requirements were available before the established cutoff date and the updated performance results could have been included. Although OMB Circular No. A-11 allows for the use of preliminary budget estimates for reporting performance results, we determined that updated data were available that were consistent with the President's budget amounts and therefore should have been included in the GPRA report.

## Supporting Documentation for Navy Data

Neither the Office of Program Analysis and Evaluation, nor the Navy Comptroller's office could provide supporting documentation for the reported FY 1999 Navy performance result or the FYs 2000 and 2001 Navy performance goals. The FY 1999 performance result and the FYs 2000 and 2001 performance goals presented in the GPRA report should be consistent with OP-30 budget data. The Army and Air Force were able to provide adequate OP-30 supporting documentation for the information presented in the GPRA performance report. The Office of Program Analysis and Evaluation, and the Navy Comptroller's office agree that the Navy amounts presented were incorrect and stated that they could not determine the source of the data. Material differences existed between the amounts reported and the amounts supported by the OP-30 data, as previously indicated in Table 1. DoD officials were not aware that amounts presented in the GPRA report were not consistent with Navy depot maintenance budget data.

## Consistent Methodology

DoD did not report the FYs 1999, 2000 and 2001 performance goals using a consistent methodology, as required by OMB guidance. DoD presented both the FY 1999 and 2000 performance goals based on the FY 2000 President's budget and presented the FY 2001 performance goal based on the FY 2001 initial Military Department estimate to the Office of the Secretary of Defense, not the updated approved President's budget. The presentation of the FY 2000 performance goal, consistent with the FY 2000 President's budget, was in accordance with OMB Circular No. A-11 guidance. The OMB guidance requires Federal agencies to present yearly performance goals consistent with the corresponding year's President's budget.

**Presentation of the FY 1999 Performance Goal.** The FY 1999 performance goal established in the FY 1999 President's budget and the goal presented in GPRA performance report, based on the FY 2000 President's budget, was substantially less. The Military Department performance goals in the FY 1999 President's budget amounts were \$66 million (15 percent) less for the Army,

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\$226 million (39 percent) less for the Navy, and \$205 million (109 percent) less for the Air Force than the amounts reported in GPRA. The Office of Program Analysis and Evaluation was aware of the inconsistency and stated that the FY 1999 goal should have been consistent with the FY 1999 President's budget. Within Performance Indicator 2.3.2, DoD disclosed that the FY 1999 performance goal was revised based on FY 2000 budget data. According to the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, the FY 1999 performance goal was revised because the FY 2000 President's budget contained more accurate information than the FY 1999 budget estimates.

**Presentation of FY 2000 Performance Goal.** The presentation of the FY 2000 performance goal, consistent with the FY 2000 President's budget, except for an error in the Navy data, was in accordance with OMB Circular No. A-11 guidance.

**Revising the FY 2001 Performance Goal.** The FY 2001 performance goal was based on the initial Military Department estimates instead of the President's budget. Therefore, to consistently present the performance goals in accordance with OMB Circular No. A-11, DoD will have to revise the FY 2001 performance goals. Specifically, the FY 2001 goals should be restated in next year's performance report to be consistent with the FY 2001 President's budget and not FY 2002 budget data. The amounts to be revised, consistent with the FY 2001 President's budget, are \$231 million for the Army, \$1,092 million for the Navy, and \$136 million for the Air Force. Beyond FY 2001, revisions to performance goals will not be required if data consistent with the President's budget are presented.

## Ensuring Compliance With GPRA Requirements

DoD did not have effective controls in place to insure that GPRA reporting for this performance indicator were accurate and clearly presented. Additional procedures could be incorporated into the preparation instructions for Performance Indicator 2.3.2 that would improve the information presented in Performance Indicator 2.3.2.

**Using President's Budget Data.** DoD did not use the best data available, consistent with the FY 2001 President's budget data, in its GPRA report. OMB Circular No. A-11 requires that DoD submit its annual report to the President and Congress by March 31 and that the performance results and goals be consistent with the President's budget. DoD did not establish procedures to ensure that the goals and results presented were consistent with the President's budget data. Although DoD disclosed that the President's budget data were not used, these data were available in time to have been included in the annual performance report published in March 2000.

**Support for Performance Data.** DoD did not establish procedures to ensure that the Military Departments' GPRA performance indicator data were reconciled to supporting data. As a consequence, the Navy data were not

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supported by OP-30 budgetary data. Although the OP-30 reports were available to the Navy Comptroller officials, DoD did not use the reports to verify the performance information. Had DoD compared the OP-30 data with the performance data, the reported amount could have been changed to be more accurate.

**Presenting Consistent and Revised Data.** DoD did not establish procedures to ensure that the FYs 1999 and 2001 performance goals corresponded to the concurrent year's President's budget data as required by OMB Circular No. A-11. DoD presented the FY 1999 goal using the amounts presented in the FY 2000 President's budget. DoD should have presented the FY 1999 performance goal based on the FY 1999 President's budget. DoD presented the FY 2001 performance goal based on initial Military Department estimates instead of the FY 2001 President's budget data.

## Summary

Performance Indicator 2.3.2 did not contain reliable data. The performance results and goals were not based on the best available data, the Navy performance data were unsupported, and DoD did not report the FYs 1999, 2000, and 2001 performance goals using a consistent methodology. Inconsistencies between the GPRA report and the President's budget detract from the credibility of the results and goals presented in the GPRA report.

## Recommendations, Management Comments, and Audit Response

**A. We recommend the Under Secretary of Defense (Comptroller/Chief Financial Officer), in compiling future GPRA reports:**

**1. Present unfunded depot maintenance results and goals consistent with the current President's budget data.**

**Management Comments.** The Director of Program Analysis and Evaluation, Under Secretary of Defense (Comptroller/Chief Financial Officer), concurred and agreed to compile future GPRA reports with data consistent with the President's budget. However, the Director stated that the Office of Program Analysis and Evaluation will change Performance Indicator 2.3.2 so that it is a lagging indicator and eliminate the time phasing problem with the availability of budget data. See the Management Comments section of the report for the complete text of the comments.

**2. Reconcile the reported performance results and goals to the President's budget data.**

**Management Comments.** The Director, Program Analysis and Evaluation, Under Secretary of Defense (Comptroller/Chief Financial Officer), agreed to compile future reports with data consistent with the President's budget.

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**3. Revise the FY 2001 performance goals using FY 2001 President's budget data.**

**Management Comments.** The Director, Program Analysis and Evaluation, Under Secretary of Defense (Comptroller/Chief Financial Officer), concurred with the recommendation.

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## **B. Presentation of Performance Indicator 2.3.2, Unfunded Depot Maintenance Requirements**

DoD needed to improve the presentation of Performance Indicator 2.3.2, “Unfunded Depot Maintenance Requirements,” to provide readers with more meaningful information. The following weaknesses existed:

- The performance indicator did not include a quantifiable benchmark against which to measure the trend in unfunded depot maintenance requirements.
- The “Actual and Projected Performance” section did not discuss the reason that the Army did not meet the goal, accurately present the Navy performance results, or discuss the performance trend over the time period presented.

The weaknesses occurred because DoD did not comply with the intent of the GPRA and OMB Circular No. A-11 requirements for the presentation of performance information. As a result, Performance Indicator 2.3.2 did not provide clear and useful information.

### **Presentation of Unfunded Depot Maintenance Performance Results**

DoD needed to improve its presentation of unfunded depot maintenance performance results to report more meaningful information. Performance indicators are intended to help evaluate the status of performance goals by assessing their quantifiable outputs. To evaluate performance goal 2.3, “Streamline Infrastructure Through Business Reform,” DoD needed to include a benchmark to measure performance results, and to appropriately discuss the performance results.

**Displaying the Performance Results.** The performance indicator did not provide a quantifiable benchmark against which to measure the trend in unfunded depot maintenance requirements. An established benchmark would provide users and readers with the level of unfunded depot maintenance requirements that DoD managers are willing to accept.

**Establishing a Benchmark.** The desired level of unfunded depot maintenance requirements for each Military Department, expressed as a quantifiable benchmark, is not provided in the GPRA report. Therefore, the reader would be unable to interpret the optimal level of unfunded requirements



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and whether the actual amounts are necessarily favorable. Based on performance data presented, the reader must assume that FY 1997 was established as the baseline year that future years would be measured against. However, information was not provided to inform the reader whether FY 1997 results represent the desired benchmark on which future years should be judged. An established benchmark or baseline amount is not necessary to determine whether unfunded depot maintenance requirements are increasing or decreasing over time. However, readers cannot determine whether the amounts presented represent desired levels of unfunded depot maintenance. Therefore, establishing a benchmark would improve the understanding and acceptance of the performance results.

Without established benchmarks, readers and users could make improper assumptions and decisions about the large dollar differences between the actual unfunded depot maintenance amounts that each of the Military Departments reported. For example, in FY 1997, the reported Navy unfunded amount was \$782 million compared with \$226 million for the Air Force, a difference of \$556 million. A user cannot determine whether the funding information was adequate or whether it suggested the need for additional funding for the Navy or the Air Force. Accordingly, establishing and presenting a benchmark amount of unfunded depot maintenance requirements for each Military Department would prevent potential confusion about the data presented. The benchmark would also provide valuable unfunded depot maintenance requirements information for later years' performance results.

**Presenting a Meaningful Benchmark.** Because of the possibility of material changes to Military Department requirements, the unfunded depot maintenance benchmark should be stated as a percentage of total requirements. Military Department depot maintenance requirements are volatile and can change significantly from year to year. For example, total requirements from FYs 1997 through 1999 for the Navy were \$4 billion, \$4.2 billion, and \$4.7 billion, respectively, a difference of \$700 million over the 3 years. However, the DoD presentation methodology using unfunded dollars as the measure would not show any progress if the unfunded amount remained constant or increased at a lesser rate than requirements over the time period. Therefore, because of the volatility of requirements and the potential for misunderstanding, the established unfunded depot maintenance benchmark would be most meaningful stated as a percentage of total requirements. Table 2 is an illustration of how the presentation of the trend in unfunded depot maintenance requirements could be presented using FYs 1997 through 2001 President's budget data.

<b>Table 2. Trend in Unfunded Depot Maintenance Requirements:</b> <b>Dollars Compared With Percent of Total Requirements</b> dollars in millions *						
	1997	1998	1999	1999	2000	2001
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Goal</u>	<u>Goal</u>	<u>Goal</u>
Army requirements	\$1,266	\$1,239	\$1,187	\$1,223	\$835	\$1,127
Army unfunded amount	457	543	452	506	191	231
Army unfunded percent	36	44	38	41	19	20
Navy requirements	\$3,977	\$4,228	\$4,659	\$4,492	\$4,786	\$4,769
Navy unfunded amount	782	608	663	811	589	1,092
Navy unfunded percent	20	14	14	18	12	23
Air Force requirements	\$1,802	\$2,459	\$2,343	\$2,539	\$2,501	\$2,583
Air Force unfunded amount	227	271	65	392	339	136
Air Force unfunded percent	13	11	6	15	14	5

\* All numbers are taken from the Military Departments' budget reports.

The appropriate unfunded depot maintenance benchmark would be included either in Table 2 or in the supporting narrative section. We believe that using such a presentation methodology with a benchmark established as a percentage of total requirements would show whether unfunded amounts are at acceptable levels and helps the user determine the level at which requirements are being funded.

**Adequacy of Performance Indicator Discussion.** The “Actual and Projected Performance” section of Performance Indicator 2.3.2 did not discuss the reason that the Army did not meet the FY 1999 goal, did not accurately reflect the Navy performance results, or discuss the performance trend over the time period presented.

**Army Results.** DoD appropriately reported that the Army fell short of the stated FY 1999 goal by 3 percent. However, DoD did not disclose the reason or reasons that it did not achieve the goal as required by OMB Circular No. A-11 GPRA guidance. Readers need additional information to assess the significance of instances when the goal is not achieved.

**Navy Results.** DoD did not accurately report the Navy performance results in the “Actual and Projected Performance” section of the indicator. DoD reported that the Navy exceeded its goal by 24 percent for FY 1999. However, that result was not supported by the amounts in Performance Indicator 2.3.2. The indicator reported the FY 1999 Navy unfunded depot maintenance goal as \$585 million and that the Navy had an actual unfunded amount of \$630 million. Those amounts show that the Navy actually fell short of its goal by 8 percent. Therefore, the performance indicator should have shown that the Navy did not meet its performance goal for FY 1999 and should have stated the reason that it did not achieve the goal.

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**Disclosing Performance Over Time.** The performance results discussed in the “Actual and Projected Performance” section included information for only FY 1999. The purpose of the performance information, as stated in the “Metric Description” section, is to prevent maintenance backlogs from growing substantially over time and to verify that proposed expenditures protect assigned readiness levels. The performance information presented provides only limited information for that comparison. Specifically, the trend in actual and future unfunded requirements is not addressed in the performance narrative section. Additional information would provide the rationale for establishing the FY 2000 unfunded goals for the Navy and the Air Force. The Navy goal of \$779 million is similar to the actual unfunded amount reported for FY 1997 after a slightly downward trend for FYs 1998 and 1999. Therefore, the Navy 2000 goal, as stated, reverses the downward trend and would increase the unfunded depot maintenance level back to the FY 1997 level. Similarly, the Air Force FY 2000 unfunded goal of \$339 million represents the highest unfunded amount for any year presented and is \$113 million (50 percent) higher than the 1997 baseline amount of \$226 million. The data show an upward trend for the Air Force unfunded depot maintenance requirements over the 4-year period. Because of the large upward and downward changes in the unfunded amounts presented over the 5-year period, additional details about the respective Military Department’s data would improve reader understanding.

## Compliance With GPRA Reporting Requirements

DoD did not fully comply with the intent of the GPRA and OMB Circular No. A-11 requirements for the presentation of performance information. OMB Circular No. A-11, part 2, July 1999, provides implementing guidance for Government Performance and Results Act requirements such as developing performance goals and indicators and comparing performance results with the performance goal target level.

**Developing Goals and Indicators.** OMB Circular No. A-11 requires that agencies develop goals and indicators that can be expressed in an objective and quantifiable manner and inform the President, Congress, and other interested parties of the expected level of achievement for the program or activity. DoD met the intent of GPRA by expressing Performance Indicator 2.3.2 in an objective and quantifiable manner. However, DoD did not inform readers of the expected level of achievement for the unfunded amounts presented. DoD should have disclosed a benchmark or target amount to inform readers of acceptable or tolerable unfunded depot maintenance levels. Reductions in unfunded levels may not be sustainable over the long-term. Therefore, a benchmark amount would improve acceptance of results in times when reductions are not feasible but actual amounts are within the desired target level.

**Comparing Actual and Projected Performance.** OMB Circular No. A-11 requires a comparison of the actual level of performance with the established goal and an explanation of why a goal was not met, even if the difference is slight. DoD attempted to comply with that requirement for Performance Indicator 2.3.2 and partially succeeded in that the Army and Air Force

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performance results were calculated accurately. However, the discussion of the Navy performance results was inaccurate because the results were not calculated properly. Therefore, based on the amounts presented, the Army and the Navy did not meet their goals by 3 and 8 percent, respectively. DoD should have included additional information about why the Army and the Navy did not meet their performance goals and whether the shortfalls negatively impacted program performance or readiness.

## Value of Information Presented

Performance Indicator 2.3.2 did not provide readers and decisionmakers with complete unfunded depot maintenance information that was as clear and useful as it could have been.

**Trend Analysis.** DoD needed additional information about the trend in unfunded requirements for each Military Department because the performance measure is designed to show whether depot maintenance backlogs are growing over time. DoD presented performance data for 5 years from FYs 1997 through 2001 but discussed only FY 1999 results, stating that the performance targets were effectively met. Of the 5 years of performance data, the FYs 1997 through 1999 data were actual results but the FYs 2000 through 2001 data were performance goal estimates. DoD did not provide any analysis or interpretation of the unfunded depot maintenance trend for the time period covering the actual or estimated results. The GPRA performance report could have provided additional details about the downward trend for the Army for FYs 1997 through 2001 and explained the rationale for the apparent upward trend for the Navy and the Air Force in FYs 2000 and 2001.

**Supporting Presented Performance Results.** The discussion of the FY 1999 performance results needed improvements so that it supported the data presented. Users need complete and accurate information to form conclusions and make decisions. Therefore, the performance results discussion should mirror and augment the performance data presented. DoD needed improvements to accurately present the Navy performance results and to discuss the reason that the Army and the Navy did not achieve their respective performance goals, had the Navy results been calculated properly. The additional information would have directly supported the Military Department performance results.

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## **Recommendations, Management Comments and Audit Response**

**Deleted and Renumbered Recommendations.** As a result of management comments, we deleted draft Recommendation B.1. Draft Recommendations B.2. and B.3. have been renumbered as Recommendations B.1. and B.2. respectively.

**B. We recommend the Under Secretary of Defense (Comptroller/Chief Financial Officer) improve the GPRA reporting for Performance Indicator 2.3.2. Specifically,**

**1. Establish and disclose a quantifiable unfunded depot maintenance benchmark for each Military Department, displayed as a percentage of total requirements.**

**Management Comments.** The Director, Program Analysis and Evaluation, Under Secretary of Defense (Comptroller/Chief Financial Officer), partially concurred that the unfunded depot maintenance benchmark should be presented as a percentage of unfunded requirements. However, the Director stated that in the future, the performance indicator will include the actual funded requirement amount. Rather than display a percentage of total requirements.

**Audit Response.** The Director's comments were not responsive. Although disclosing the funded requirements in the GPRA report would be useful information, year-to-year funded requirements are not the best data to be used as a benchmark. We believe that a benchmark based on percentage of unfunded depot maintenance requirements is the best means of assessing the desired level of unfunded amounts over time and for disclosing the unfunded level that DoD managers are willing to accept. Continuous reductions in unfunded levels may not be sustainable over the long-term. Therefore, a benchmark amount would improve acceptance of results in times when reductions are not feasible but actual amounts are within the desired target level. We request that the Director, Program Analysis and Evaluation, Under Secretary of Defense (Comptroller/Chief Financial Officer), reconsider his position and provide additional comments to the final report.

**2. Present accurate discussions of performance results and the reasons for not achieving unfunded depot maintenance performance goals, even when the shortfall is only slight.**

**Management Comments.** The Director, Program Analysis and Evaluation, Under Secretary of Defense (Comptroller/Chief Financial Officer), concurred and agreed to include discussions of why a performance target was not met, when necessary.

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## Appendix A. Audit Process

### Scope and Methodology

**Work Performed.** In its annual performance report, DoD reported that the Department effectively met its performance target for Performance Indicator 2.3.2, “Unfunded Depot Maintenance,” in FY 1999. DoD reported FY 1999 unfunded amounts of \$454 million for the Army, \$630 million for the Navy, and \$104 million for the Air force. DoD also reported that the information used to determine unfunded depot maintenance was derived from existing budget data, which were composed of Military Departments’ estimates and obligation data from the Defense Finance and Accounting Service. To audit Performance Indicator 2.3.2, we verified that the supporting budget data existed and were used in Performance Indicator 2.3.2. We also made inquiries of DoD and the Military Departments’ Comptroller staffs to determine the methodology used to prepare the budget reports and to compile requirements data for Performance Indicator 2.3.2. We reviewed prior audit reports issued by the Military Departments’ audit organizations and contacted Military Departments’ audit representatives to determine the extent of prior audits.

**Limitations to Scope.** We determined whether DoD consistently and accurately compiled unfunded depot maintenance requirements for Performance Indicator 2.3.2. However, we could not determine whether DoD was achieving the goal of reducing unfunded depot maintenance requirements because the data were not accurate or consistent. We performed limited tests of management controls. The tests included reviewing management disclosures made in the Annual Statements of Assurance, reviewing the management control program as it related to GPRA, and performing tests of compliance with laws and regulations, such as the GPRA and OMB Circular No. A-11 requirements applicable to Performance Indicator 2.3.2. A summary report will be issued discussing the management control program as it relates to the overall GPRA report. We reviewed Military Departments’ budget reports but did not validate the requirement and obligation data used to compile the budget reports. The Military Departments’ audit organizations have previously reported that DoD accounting and finance systems were noncompliant with Federal financial management requirements and obligation data were not reliable.

**Computer-Processed Data.** We used summary requirements, budget, and financial system computer data that supported the DoD Planning, Programming, and Budgeting System. We relied on the computer-processed data without performing tests of system general and application controls to confirm the reliability of the data. However, not establishing the reliability of the computer-processed data will not materially affect the results of our audit.

**Audit Type, Date, and Standards.** We performed this program audit from April through September 2000 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector

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General, DoD. Accordingly, we included tests of management controls considered necessary.

**Contacts During the Audit.** We visited or contacted individuals and organizations within DoD. Further details are available on request.

## Prior Coverage

The General Accounting Office; the Inspector General, DoD; the Army Audit Agency; the Air Force Audit Agency; and the Logistics Management Institute have conducted multiple reviews related to depot maintenance.

General Accounting Office reports can be accessed on the Internet at <http://www.gao.gov>.

Inspector General, DoD, reports can be accessed on the Internet at <http://www.dodig.osd.mil/audit/reports>.

Army Audit Agency reports can be accessed on the Internet at: <http://www.hqda.army.mil/AAAWEB/>.

Air Force Audit Agency reports can be accessed on the Internet at: <http://www.affa.hq.af.mil/afck/plansreports/reports.shtml>.

Logistics Management Institute reports can be searched on the Internet at: <http://www.lmi.org/reports.html> and may be ordered by emailing [library@lmi.org](mailto:library@lmi.org).

## Appendix B. Performance Indicator 2.3.2 - Unfunded Depot Maintenance

Performance Indicator 2.3.2 - Unfunded Depot Maintenance Requirements (\$ in Millions)					
	FY 1997 Actual	FY 1998 Actual	FY 1999 Goal/Actual		FY 2000 Goal
					FY 2001 Goal <sup>a</sup>
Army	457	543	440 <sup>b</sup>	454 <sup>a</sup>	191 <sup>b</sup>
Navy	782	608	585 <sup>b</sup>	630 <sup>c</sup>	779 <sup>c</sup>
Air Force	226	270.5 <sup>c</sup>	187.8 <sup>b</sup>	104 <sup>a</sup>	223

<sup>a</sup> Preliminary figures. Final values will be included in the President's FY 2001 budget submission (databook).  
<sup>b</sup> Reflects adjustments to the goal identified in the FY 2000 GPRA performance plan, which did not account for final revisions to the FY 2000 budget request.  
<sup>c</sup> Revised. The figure given in the FY 2000 GPRA performance plan—\$218 million—applied to the active component only. When the Air National Guard and Air Force Reserve are included, the requirement increases to \$270.5 million.

**Metric Description.** Unfunded depot maintenance is the difference, in dollars, between Service estimates of depot maintenance expenditures needed to keep all equipment fully operational and the amount of maintenance actually funded in the budget. The FY 2001 goals reflect the outcome of budget decisions made during the PPBS process.

The Services determine annual maintenance requirements from projected usage rates of equipment. Service funding requests are generally lower than forecast requirements, but the unfunded portion of the requirement does not necessarily mean that maintenance will be forgone. Inspections accomplished prior to and during depot maintenance sometimes identify overhaul options that would be less costly to carry out than those reflected in the original workload projections. Moreover, unscheduled repairs often satisfy depot maintenance requirements. Performance Indicator 2.3.2 permits the comparison of unfunded requirements over time. An upward trend indicates a higher likelihood (but not a certainty) that needed maintenance will not be accomplished.

Performance Indicator 2.3.2 is not intended to measure the success of the depot maintenance program in any given year. Annual performance of depot maintenance programs is captured under Performance Indicator 2.3.8, Defense Working Capital Fund. In turn, that metric's evaluation of each working capital fund is supported by underlying cost, timeliness, and quality objectives.

**V&V Methodology.** Service requirements are reviewed annually through the PPBS process. The intent of these reviews is to ensure the Department has in place an executable program that will prevent maintenance backlogs from growing substantially over time. The reviews also provide a means of verifying that Service-proposed expenditures for depot maintenance protect assigned readiness levels in the budget year.

**Actual and Projected Performance.** The Department effectively met its performance target for unfunded maintenance in FY 1999. While the Army fell 3 percent short of its goal, the Navy and Air Force exceeded their goals by 24 percent and 45 percent, respectively. No significant shortfalls are projected for FY 2000.

Source: DoD Annual Report to the President and Congress, Appendix I, March 2000



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## **Appendix C. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition, Technology, and Logistics  
Director, Defense Logistics Studies Information Exchange  
Under Secretary of Defense (Comptroller/Chief Financial Officer)  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Director, Program Analysis and Evaluation

### **Department of the Army**

Auditor General, Department of the Army

### **Department of the Navy**

Naval Inspector General  
Auditor General, Department of the Navy  
Superintendent, Naval Postgraduate School

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

### **Other Defense Organizations**

Director, Defense Contract Audit Agency  
Director, Defense Finance and Accounting Service  
Director, Defense Logistics Agency  
Defense Systems Management College

### **Non-Defense Federal Organizations and Individuals**

Office of Management and Budget  
General Accounting Office  
National Security and International Affairs Division  
Technical Information Center

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## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Management, Information, and Technology,  
Committee on Government Reform  
House Subcommittee on National Security, Veterans Affairs, and International  
Relations, Committee on Government Reform

# Director, Program Analysis and Evaluation Comments



PROGRAM ANALYSIS  
AND EVALUATION

OFFICE OF THE SECRETARY OF DEFENSE  
1800 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1800



December 8, 2000

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,  
OFFICE OF THE INSPECTOR GENERAL,  
DEPARTMENT OF DEFENSE

SUBJECT: DoD Inspector General Draft Audit on "Unfunded Depot Maintenance  
Requirements," (Project No. D2000FJ-0103).

At your request, my office has reviewed the draft audit report, dated August 15, 2000, on the Performance Measure 2.3.2: Unfunded Depot Maintenance Requirements, included in the Department's FY 1999 performance report.

Consistent with the requirements of the Government Performance and Results Act (GPRA), the Department has designed its performance plan and report to provide an executive-level overview of how the Secretary of Defense manages performance across the Department to achieve the outcomes required by the defense strategy. The intention is to provide a clear picture of how the Department is progressing toward achieving performance objectives established by the Quadrennial Defense Review (QDR), which serves as the Department's strategic plan.

The Department concurs with the recommendations to compile future reports with data (for both performance targets and results) that are consistent with the current President's budget data, and to revise the FY 2001 performance goals using FY 2001 President's budget data. The Department will change the indicator for unfunded depot maintenance requirements so that it is a lagging indicator, thereby eliminating the time phasing problem with the availability of budget data. Future reporting will reflect actual President's budget data.

The Department partially concurs with the recommendations to establish a quantifiable unfunded depot maintenance benchmark for each Military Department, displayed as a percentage of total requirements, and to discuss the reasons why a performance target was not met, if necessary. However, rather than display a percentage of total requirements, the performance plan will display the actual funded requirement. The Department believes displaying the actual budget data is more accurate and useful than a percentage. This will also keep the display in the consistent units of millions of dollars.

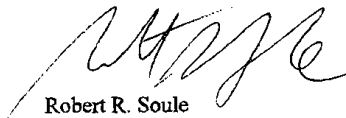
The Department non-concurs with the recommendation to move this indicator from supporting Performance Goal 2.3: Streamline Infrastructure Through Business Reform, to Performance Goal 1.2: Provide Trained and Ready Forces. Performance Indicator 2.3.2 presents information used by senior DoD managers to evaluate infrastructure activity. Detail about how maintenance backlogs affect equipment readiness, and thus the overall readiness of U.S. forces, is presented in the classified GPRA metrics included in the *Quarterly Readiness Report to Congress*.

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A key goal of the GPRA legislation is to increase confidence in government. We will continue to work with the Congress and the DoDIG as we present future GPRA strategic plans, performance plans, and performance reports, so that our GPRA activities reflect a full and effective implementation of the law.



Robert R. Soule  
Director  
Program Analysis and Evaluation

## **Audit Team Members**

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report. Personnel of the Office of the Inspector, DoD, who contributed to the report are listed below.

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